

# SENATE BILL REPORT

## ESHB 1296

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As of March 16, 2017

**Title:** An act relating to consolidating and simplifying the annual report and annual survey used for economic development tax incentives.

**Brief Description:** Consolidating and simplifying the annual report and annual survey used for economic development tax incentives.

**Sponsors:** House Committee on Finance (originally sponsored by Representatives Nealey, Springer, Harris, Vick, MacEwen, Stokesbary, Orcutt, Haler and Condotta).

**Brief History:** Passed House: 2/27/17, 96-0.

**Committee Activity:** Agriculture, Water, Trade & Economic Development: 3/16/17.

### Brief Summary of Bill

- Consolidates the Annual Report and Annual Survey required of certain tax preferences into one report, called the Annual Tax Performance Report.

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## SENATE COMMITTEE ON AGRICULTURE, WATER, TRADE & ECONOMIC DEVELOPMENT

**Staff:** Greg Vogel (786-7413)

**Background:** Tax Preferences. The term tax preference includes a variety of preferences that reduce tax liability for taxpayers. Tax preferences include the following:

- exclusions;
- deductions;
- credits;
- deferrals;
- preferential tax rates; and
- exemptions.

Currently, Washington has close to 700 tax preferences.

Annual Reports and Surveys. Since 2003, the Legislature has required taxpayers to file the Annual Report (Report) or Annual Survey (Survey) in order to qualify for a variety of new

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economic development-related tax preferences, or in some cases, when extending existing preferences. Since 2013, if the tax preference performance statement for a new tax preference indicates a legislative purpose intending to improve industry competitiveness or create or retain jobs, any taxpayer claiming the new tax preference must file the Survey. There are currently 29 economic development-related tax preferences that require one of these supplemental filings.

Reporting Information and Disclosure. The Report requires information on the salaries and benefits provided to taxpayers' employees in Washington State, as well as information on the quantity of incentivized products produced in Washington. Most of the information in the Report is not confidential taxpayer information and is specifically identified as public information.

The Survey requires taxpayers to provide the amount of any tax preference claimed each year, in addition to information on employment and other items specific to the particular incentive claimed. Except for the tax preference amount, which is public, information reported under the Survey is confidential taxpayer information.

Report on Annual Survey and Annual Report. In 2013, the Legislature directed the Department of Revenue (Department), in consultation with the Joint Legislative Audit and Review Committee (JLARC), to recommend improvements for the Report and Survey. The Department made six recommendations to provide more meaningful data, reduce the administrative burden on taxpayers, and improve transparency, including the following:

- combining the Report and Survey into a single tax preference accountability document;
- eliminating reporting of information that does not help in providing meaningful recommendations on the legislation's effectiveness in creating jobs or improving competitiveness; and
- creating consistent confidential and public information disclosure standards.

**Summary of Bill:** The Report and Survey required of certain tax preferences is consolidated into one report, called the Annual Tax Performance Report (Performance Report). Beginning in calendar year 2018, every person claiming a tax preference that required the Report or Survey will file the Performance Report.

The Performance Report must include the following:

- information detailing employment and wages;
- the amount of the tax preference claimed; and
- for a person that claimed a public research institutions machinery and equipment exemption, the amount of tax exempted for each general area or category of research and development for which exempt machinery and equipment and labor and services were acquired.

All of the information in the Performance Report is subject to public disclosure upon request, except for any additional information requested by the Department or JLARC to measure the results of, or determine eligibility for, the tax preference.

A tax preference performance statement is not required for newly enacted tax preferences if the legislation enacting the new tax preference contains an explicit exemption from this requirement.

The due date for the report by the Department on tax deferrals for investment projects in rural counties is moved up one year and is now due December 1, 2018. Additionally, the report is no longer required to measure the effect of the program on the introduction of new products, the diversification of the state's economy, growth in research and development investment, and the movement of firms or the consolidation of firms' operations into the state.

An expiration date of January 1, 2036, is provided for the preferential rate for manufacturers of dairy products and sales by these manufacturers to customers that transport the product outside the state in the normal course of business. An expiration date of January 1, 2026, is added to the data center sales tax exemption on the purchase of servers and power infrastructure. Neither expiration date is a modification, but are added, rather, to provide clearer notice of expiration dates already in place under the automatic 10-year expiration dates per new tax preferences.

**Appropriation:** None.

**Fiscal Note:** Available.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

**Effective Date:** The bill takes effect on January 1, 2018.

**Staff Summary of Public Testimony:** PRO: This bill combines the two reports required of economic development-related tax preferences into one report, thereby making the reporting process more efficient and easier to understand. Combining the reports also reduces the opportunity for taxpayers to make a mistake, which can make a big difference in terms of amounts paid. Filing for the survey and report is a complicated process, and the Legislature has done a number of things over the years to improve the process. This bill is another step towards improvement and is a good little government efficiency bill.

**Persons Testifying:** PRO: Eric Lohnes, Association of Washington Business.

**Persons Signed In To Testify But Not Testifying:** No one.